



Committee On Finance

Max Baucus, Chairman

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For Immediate Release

Friday, September 13, 2002

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WASHINGTON -- Sen. Max Baucus, Chairman of the Committee on Finance, sent the following letter to the Director of the Office of Management today regarding the Finance Committee's concern about the increased promotion and use of various types of abusive tax schemes and their eroding effect on the integrity of our voluntary tax system. The Chairman is asking OMB to assess whether the government is taking all necessary steps to combat abuse and whether additional resources are needed for IRS to implement an effective and balanced compliance program.

September 13, 2002

Mr. Mitchell E. Daniels, Jr.
Director, Office of Management and Budget
725 17th St., N.W.
Washington, D.C. 20503

Dear Mr. Daniels:

The Finance Committee has been extremely concerned for some time about the increased promotion and use of various types of abusive tax schemes and their eroding effect on the integrity of our voluntary tax system. The Committee held a hearing earlier this year to review efforts by the Internal Revenue Service (IRS) to identify and combat deliberate tax cheating. Many of these schemes make extensive use of foreign entities, such as trusts, partnerships and offshore bank accounts that make it difficult for the IRS to enforce the law. The IRS estimates that there may be one to two million taxpayers concealing taxable income through the use of offshore entities costing honest taxpayers an estimated \$40 to \$70 billion a year.

The IRS has recently started a new program to identify taxpayers using offshore bank accounts. This program relies on information provided by the three major credit card companies and looks extremely promising. To date, the IRS has received limited account information from one credit card provider and identified over 900 cases involving CEOs, doctors, lawyers, and entrepreneurs. These cases are very labor intensive, requiring hundreds of IRS staff hours to complete just one examination. More alarming, however, is the fact that there are thousands of cases waiting to be investigated

and a potential avalanche expected when complete disclosure of account information is made by the credit card companies.

The progress made by the IRS is a good start and the initial results offer encouraging news. However, I continue to believe that a more vigorous and sustained approach is needed to curb noncompliance, particularly the use of offshore bank accounts to escape federal income tax. These abusive tax schemes, if left unchecked, will erode public confidence in our tax system and we simply must not let this happen. The Administration needs to be more supportive of the IRS compliance initiatives and not at the expense of realigning existing IRS programs which are just starting to produce dividends after a lengthy reorganization effort.

Yesterday, IRS Commissioner Charles Rossotti announced plans to shift IRS audit resources to tracking down high-income cheaters who fail to report income, hide it off-shore, or in some cases do not file at all. Last month, the Acting Assistant Secretary for Tax Policy, Ms. Pam Olson, advises us that "the IRS is devoting additional resources to these issues, but more may be needed." Ms. Olson correctly points out that the "need to train, supervise and administer new IRS personnel places significant limits on how quickly new (as opposed to existing) audit resources can be added productively for these cases." With the serious threat that scams and noncompliance pose to our voluntary tax system, it is important that steps be taken immediately to implement an effective, balanced compliance program. In my view, it is imperative that the Administration's response to tax noncompliance be commensurate with the nature and scope of the problem identified by the IRS.

I am asking that you review this matter and advise the Committee on whether the Federal government is taking all necessary steps to address the problem of tax noncompliance, particularly the use of offshore bank accounts to conceal income, and determine whether more can be done. Specifically, I am interested in learning whether additional resources are needed to effectively attack this problem and whether the Administration intends to request adequate resources in its Fiscal Year 2004 and future budget plans for IRS. The IRS may have reached the point where re-allocating existing resources will diminish its ability to meet traditional compliance responsibilities.

I appreciate your prompt attention to this letter and look forward to your response.

Sincerely yours,

Max Baucus
Chairman

cc: The Honorable Paul O'Neill
The Honorable Charles Rossotti
The Honorable Pam Olson